HOOD — Investment Thesis and Valuation Corrections

Research note and updated methodology supplement | October 17, 2026

Status: QUALIFIED. The original 13-page pitch follows as historical supporting presentation. Where the original conflicts with these corrections, this supplement controls.

Investment judgment

The original underperform call rests on a probability-weighted DCF of $56.14 against a quoted $98.87 share price, or approximately 43% theoretical downside. This result is **conditional on the original modeling inputs**. It is not an independent conclusion that survives changes to share-settlement assumptions, 2026 cash-flow timing, or the treatment of regulated brokerage capital.

Numerical bridges

Original model	Figure	Interpretation
Bear / base / bull	$31.62 / $54.73 / $83.47	Original model outputs, not newly validated targets
Weighted value	$56.14	25% / 50% / 25% subjective weights
WACC / terminal growth	11.67% / 4.00%	Assumptions; emphasize high terminal dependence
Original reverse DCF	~25% revenue growth	**Withdraw as exact model-solved output**

The revised Excel model adds a goal-seek-ready reverse valuation calculation but explicitly distinguishes its simplified constant-margin method from the segmented original DCF. Consequently the slide stating that the market necessarily requires ~25% CAGR should not be quoted as a verified output.

Corrections required before publishing target

1. Quarterly cash-flow stub. The original 2026 stub applies a fraction of annual projected unlevered FCF. The revised workbook now includes a Q3/Q4 seasonality bridge and makes its estimated inputs visible. As Q3 actuals were not available on October 17, this is a scenario rather than an actual-data restatement.

2. Convertibles. Robinhood's June 2026 8-K describes convertible notes with up to 20.81156 million potentially issuable shares. Comparing full debt subtraction with hypothetical full share settlement is necessary to avoid double-counting. The revised workbook gives both endpoints, but the final method requires detailed settlement analysis and verified diluted-share treatment.

3. Broker-dealer valuation. Customer-segregated assets, securities lending, margin lending and regulatory capital make typical industrial working-capital logic inappropriate without adjustment. The unlevered DCF must be triangulated with an equity-return / excess-capital method.

4. Peer valuation. No unverifiable trading multiples were invented. Interactive Brokers, Charles Schwab and SoFi are included as candidate cross-checks in an input-required peer sheet; business-model differences must be reconciled.

5. Claim calibration. Replace "No reasonable discount rate closes the gap" with "Within the displayed WACC and growth scenarios, none reaches the observed price." A sensitivity grid does not define the entire reasonable parameter universe.

6. Presentation. Correct first-page UNDERPERFORM line wrapping and page 10 consensus target wrapping when the underlying deck is next regenerated. Original pages are preserved here for transparency.

Thesis-monitoring framework

Metric	Bullish exception	Bearish evidence
Net deposits	Annualized pace >25% for two quarters	Sustained deceleration from Q2 2026
More durable revenue	Other revenue >15% of total	Transaction / activity dependence remains high
Prediction markets	Clearer favorable legal framework	Material restrictions or shutdown
Credit / margins	Credit losses contained; stable normalized EBIT	Loss provisions / financing risks rise

Primary sources

Robinhood Q2 2026 results:
https://investors.robinhood.com/news-releases/news-release-details/robinhood-reports-second-quarter-2026-results

Convertible notes SEC filing: https://www.sec.gov/Archives/edgar/data/1783879/000178387926000077/hood-20260622.htm

The original material is independent illustrative equity research; it is not investment advice and the valuation is sensitive to assumptions.

EQUITY RESEARCH · STOCK PITCH · OCTOBER 17, 2026

Robinhood Markets (HOOD)

A great business, priced for the bull case

RATING	PRICE (OCT 16 CLOSE)	DCF VALUE / SHARE	IMPLIED MOVE
UNDERPERFORM	$98.87	$56	–43%

Paul Carram

Independent sample analysis for educational purposes. Not investment advice or a recommendation to buy or sell any security. No position held.

INVESTMENT THESIS

Three reasons the risk/reward skews down

01

Growth is decelerating

Revenue growth slowed from +52% in FY2025 to +24% in H1 2026. Net deposits fell from a 28% annualized pace in Q2 to 14% in August.

02

The hottest engines are the least durable

Crypto revenue fell 38% in Q2. Event contracts grew 10x but carry regulatory risk. Q2 EPS included $0.14 of one-time gains.

03

The price already assumes the bull case

$98.87 implies ~25% revenue growth every year through 2033. Our bull case reaches $83; our base case is $55.

COMPANY SNAPSHOT

From commission-free trading to a financial super-app

Robinhood runs a retail brokerage that now spans crypto, prediction markets, retirement, advisory, banking and credit cards. FY2025 revenue came from three lines:

59% Transaction-based: options, equities, crypto, event contracts

34% Net interest: margin lending, cash sweep, securities lending

7% Other: Gold subscriptions, credit card, advisory

Key figures	Value
Market cap	$90.2bn
Share price (Oct 16, 2026)	$98.87
52-week range	$63.52–$150.47
FY2025 revenue	$4.47bn (+52%)
LTM revenue (Jun-26)	$4.93bn
LTM GAAP net income	$2.08bn
Funded customers (Q2)	28.4M
Total Platform Assets (Q2)	$369bn
EV / 2027E EBIT (our est.)	30.5x

Sources: company earnings releases (Form 8-K), Morningstar quote · 03

CREDIT WHERE DUE

The business itself is executing well

13
business lines at $100M+ in annualized revenue

4.8M
Gold subscribers, +39% y/y; 17% adoption

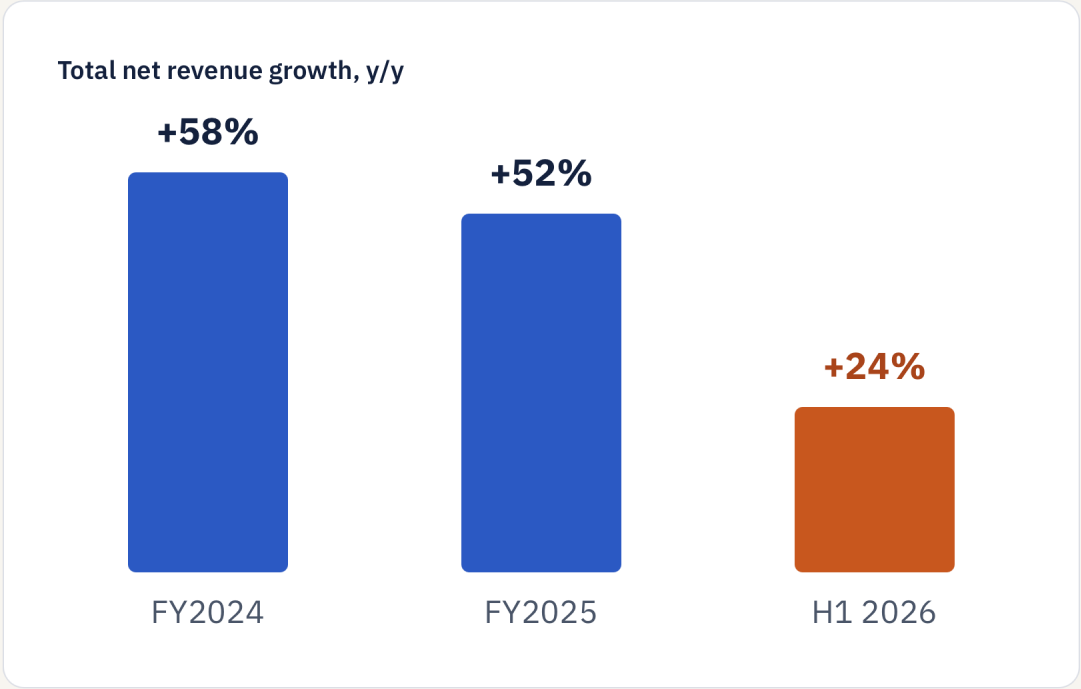
$21.6bn
margin book, +127% y/y

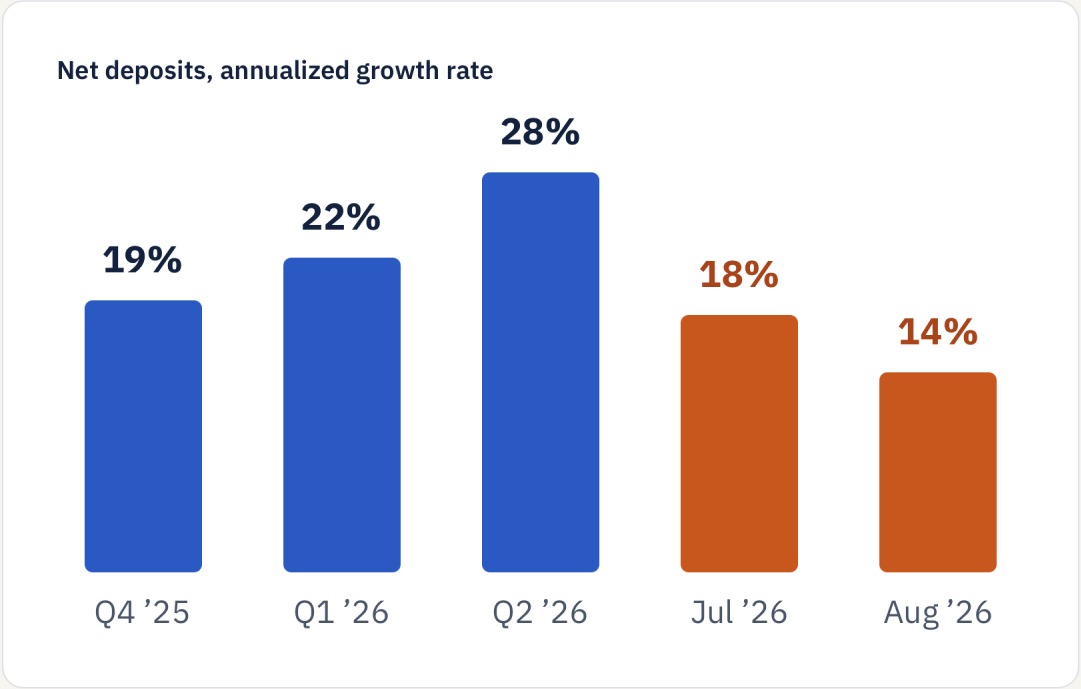
7M
Trump Account sign-ups, ~$1.5bn deposited

This is not a broken company. The question is how much of the next decade the market is already paying for.

PILLAR 1 · DECELERATION

Growth is halving, and deposits are cooling





Orange marks the latest periods. Since Q2, the monthly pace has dropped below Q4 2025’s, even with Trump Account contributions now counted.

Sources: company earnings releases; July and August 2026 operating data · 05

PILLAR 2 · EARNINGS QUALITY

Most revenue still rides on retail activity

Revenue line	Q2 2026	y/y	Durability read
Options	$342M	+29%	Activity-driven; cyclical with volatility
Event contracts	$156M	10x+	Fastest growing; legal status still contested
Equities	$129M	+95%	Activity-driven; cyclical
Crypto	$100M	–38%	Already rolling over
Net interest	$389M	+9%	Tied to rates and margin balances
Other (Gold, Card, Trump Accts)	$143M	+54%	Most durable, but only 11% of revenue

–74% y/y: Robinhood app crypto volumes in July 2026

$1M securities-lending revenue in July, vs. $37M a year earlier

$129M of one-time gains inside Q2 net income

Sources: Q2 2026 earnings release; July 2026 operating data · 06

PILLAR 3 · VALUATION

What $98.87 asks you to believe

MARKET-IMPLIED (REVERSE DCF)

~25%

revenue growth every year, 2026–2033, to **~$24.9bn** of revenue at base-case margins

OUR BASE CASE

~13%

revenue growth a year to **~$12.2bn**, with EBIT margin rising to 52%

On 2027E EBIT, the market pays **30.5x** enterprise value. Our DCF supports **16.4x**.

Source: author's DCF model (HOOD_DCF_Model.xlsx), WACC 11.7%, terminal growth 4.0% · 07

VALUATION · DCF

Even the bull case lands below today's price

Discount rate build

Input	Value
Risk-free (10-yr UST)	5.09%
Beta	1.50
Equity risk premium	4.5%
Cost of equity	11.8%
Debt / capital	2.4%
WACC	11.7%
Terminal growth	4.0%

Scenarios (FY2033E end-state)

Scenario	Revenue	EBIT margin	Value / share	Weight
Bear	$7.4bn	44%	$31.62	25%
Base	$12.2bn	52%	$54.73	50%
Bull	$18.0bn	58%	$83.47	25%
Weighted			$56.14	

vs. **$98.87** share price: **–43%** implied downside. Terminal value is 65% of base-case EV.

Unlevered FCF, mid-period discounting; SBC treated as a cash cost; $5.4bn cash, $2.2bn convertible notes; 912M diluted shares · 08

VALUATION · SENSITIVITY

No reasonable discount rate closes the gap

Base-case value per share · rows = WACC, columns = terminal growth

WACC	3.0%	3.5%	4.0%	4.5%	5.0%
9.5%	$67.61	$71.57	$76.25	$81.86	$88.72
10.5%	$58.54	$61.32	$64.53	$68.27	$72.69
11.7% (base)	$50.62	$52.55	$54.73	$57.21	$60.07
12.5%	$46.22	$47.75	$49.45	$51.37	$53.55
13.5%	$41.86	$43.03	$44.33	$45.78	$47.39
14.5%	$38.27	$39.20	$40.21	$41.32	$42.56

The most generous cell, a 9.5% WACC with 5% perpetual growth, is **$88.72**: still 10% below the **$98.87** price. The debate is about growth, not the discount rate.

Source: author’s DCF model, Sensitivity tab (live formulas) · 09

VARIANT VIEW

Where we differ from the Street

~$134

Street average target, 28 analysts; range $57–$170 (early Oct 2026)

$56

This analysis: probability-weighted DCF value

Debate	Bull / Street view	Our view
Growth durability	Share gains and new products sustain 20%+ growth	Activity-led revenue normalizes; growth fades to high single digits
Prediction markets	A large new profit pool	Real, but legally contested; not worth paying for in full yet
Rates	Higher rates lift broker interest income	A 5.1% 10-yr also raises the bar for long-duration growth equity

Consensus: Bullstory/S&P Global aggregates, early October 2026 · 10

CATALYSTS

What would prove the thesis right or wrong

When	Event	What to watch
Oct 27, 2026	Q3 2026 earnings	Net deposits, crypto revenue, event-contract volumes, 2026 expense outlook
Monthly	Operating data releases	Deposit pace vs. Q2's 28% annualized; equity and options volumes
Ongoing	Prediction-market rulings	Any limit on event contracts hits the fastest-growing line
Ongoing	Rates and the crypto cycle	Net interest sensitivity; crypto revenue already down 38% y/y

Near-term setup: the stock is already down from its 52-week high of $150.47, so the call depends on fundamentals continuing to cool, not on sentiment alone.

Sources: Robinhood investor relations; Q2 2026 Form 10-Q risk factors · 11

RISKS TO THE CALL

How this view could be wrong

Retail activity re-accelerates

A new crypto or meme-stock cycle can lift transaction revenue within a quarter.

Prediction markets hold up

If event contracts survive legal challenges, a large new profit pool opens.

New products scale faster

Trump Accounts, banking, the Gold Card and international could beat our base case.

Capital return

$414M of buybacks in Q2, and $2.2bn of 0% convertible notes adds flexibility.

Momentum

A heavily retail-owned stock can stay expensive for longer than fundamentals suggest.

What changes our mind

Net deposits above 25% annualized for two quarters, with Other revenue above 15% of the mix.

APPENDIX

Methodology, sources and disclosures

Methodology

- Unlevered DCF, FY2026E–FY2033E, mid-period discounting from Oct 17, 2026
- Revenue built by line: transaction, net interest, other
- GAAP opex including SBC and credit losses
- Gordon-growth terminal value at 4.0%
- Reverse DCF scales base-case growth to match the share price
- Full model: HOOD_DCF_Model.xlsx (live formulas)

Sources

- Robinhood Q2 2026 and FY2025 earnings releases (Form 8-K)
- Robinhood Form 10-Q for Q2 2026; June 2026 notes 8-K
- Robinhood July and August 2026 operating data
- Morningstar quote, Oct 16, 2026 close
- US 10-year Treasury yield, Oct 16, 2026
- Analyst target aggregates, early Oct 2026

Disclosure: Independent sample analysis prepared by Paul Carram for educational and portfolio purposes. Not investment advice and not a recommendation to buy or sell any security. The author holds no position in HOOD. Projections are the author’s assumptions; actual results will differ. Data as of October 17, 2026.